



PROCUREMENT IN THE **OIL & GAS** INDUSTRY

A BLUEPRINT FOR DIGITAL TRANSFORMATION



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Introduction

Depending on your point of view, digital transformation is either a highly overused buzzword or an existential imperative for most organizations. The truth is likely both. Digital transformation is mission-critical, but many organizations are still seeking a path out of the cluttered noise and buzzword to set an overarching strategy for their organization – right from identifying the right ecosystem and cloud platforms, aligning initiatives with internal business partners, and managing cultural changes required within the organization to succeed. Nowhere is this opportunity and challenge more evident than the Oil and Gas industry, which has traditionally lagged other industries in digital adoption. This paper aims to separate the reality from the hype and provide a blueprint to accelerate this digital journey.





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Where We Are and How We Got Here

Several structural elements have traditionally limited procurement's digital efforts in the Oil and Gas space. Higher regulatory requirements than other sectors, operations complexity with significant variations between upstream and downstream processes, a history of acquisitions resulting in multiple-legacy ERP applications, a traditional risk-averse approach to projects, etc., are some of the constraints seen across all leading super-majors. This has resulted in an enterprise technology landscape that's largely on-premise with bolt-on custom applications to meet additional needs. This scattered landscape doesn't allow for streamlined master data management, requiring each system to develop its version of truth with patchy data connections for the systems to talk to each other. Naturally, this landscape isn't nearly enough to fully automate the workflow and significant human intervention is required at each step of the process. The end results are clunky user experience, lengthy cycle times and elusive contract compliance.



This experience began to change a few years ago when certain industry leaders made the shift to a cloud-first mentality for their procurement and supply chain functions. In 2016, one of the leading global super-majors made the forward-thinking decision to dissociate core procurement and supply chain activities from their legacy on-premise ERP and selected a cloud-native application as the foundation of its digital transformation. Since then, the company has seen exponential



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improvements in operational efficiency and performance. There is a growing market awareness of the role a fully integrated source-to-pay (S2P) platform can play in driving digital procurement transformation for Oil & Gas companies. The companies that have been most successful in this journey have taken a different approach to this effort compared with traditional technology programs. They've had a clear focus on defining the long-term digital strategy, developing an understanding of platform and channel choices, balancing efforts across process optimization and systems deployment, and investing equal efforts and energies in pushing through cultural changes for a true agile mindset. We've distilled these elements into the following four organizational capabilities that separate the leaders from the laggards in successful digital transformation:

1. Clarity on the digital strategy and ecosystem

The overarching goal of digital transformation in many organizations remains unclear. Many companies don't know where to focus or how to drive adoption of the myriad technology offerings available in the market, resulting in an ongoing debate about the right priorities, methodology and approach to adopting digital tools. Within the realm of procurement, leading companies have defined a clear vision for their business goals and digital transformation roadmap. These companies have a focused strategy on the future role of ERP (primarily, finance and manufacturing functions) versus the role of a digital cloud platform in driving S2P and innovation focus. They decouple key procurement activities from their ERP applications, preferring the agility, user experience, workflow flexibility, simplified data maintenance and lower TCOs of cloud S2P applications. And they're clear on the broader ecosystem to be enabled via other partners. This clarity on the digital strategy and ecosystem is a crucial element for a successful digital program. It requires mapping out key workflows, data sources and user touchpoints, and identifying the primary technology platform best suited to support that process. It requires a multi-year view with a broad channel vision including a core cloud platform, enabling channel partners such as Amazon Business, third-party supplier systems for electronic transaction connectivity, other building blocks such as risk management applications, and core financial and operational activities within the ERP. Executing this vision may be a multi-year journey but the clarity helps set the guiding principles for all digital projects.

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Enterprises can leverage this opportunity and build cloud ecosystems that can operate independently of ERPs to store data and enable end-to-end process flows right from category strategy to invoice payment, with seamless integration for specialized third-party solutions and supplier systems. We envision this to be a core building block for ongoing innovation to deploy advanced data analytics, enable better decision-making, launch capabilities in blockchain and robotic process automation, and fundamentally redesign process workflows for their end users.

2. Optimization before automation

Complexity in the Oil & Gas industry and inherent process variability between business lines have resulted in very disparate processes around acquisition and fulfilment of materials and services across different business operations. This extends to other areas such as data management approaches (Item Masters versus Service Masters), vendor onboarding methods, receiving and invoicing approaches, contract structures, etc. Automating this disjointed and disparate workflow in its current form is inherently difficult in a cloud environment since the process can't be customized for each business and is also suboptimal. Process standardization and optimization to define better end-to-end processes with clear handoffs and simplified touch points across the entire S2P lifecycle are the prerequisites for digital automation efforts.

The beauty of cloud solutions is that they can enable a core model with optimal process flows while allowing configuration layers for user/business specific views, personas and workflows.

This necessitates the upfront investment of time, efforts and resources in mapping current processes, variations, business reasons for these variations and aligning on a global core process design around which limited business-specific variations are permissible for regulatory, tax or operational reasons. The beauty of cloud solutions is that they can enable a core model

with optimal process flows while allowing configuration layers for user-/business-specific views, personas and workflows. A similar effort is required for other enabling capabilities such as data management strategy, supplier engagement models, optimal channel design, etc., to ensure that the right operating model is being automated via the digital program.



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3. End users as consumers

One of procurement's biggest challenges is the lack of contract compliance combined with poor end-user experience due to too many process controls. Although companies mention high metrics on spend under management, the metrics for spend under contract continue to lag. In fact, metrics on spend under contracted lines are even lower. And end users continue to ask why the enterprise buying experience has to be so laborious, as they compare it with the efficiency and expediency of online shopping in their personal lives. For far too long, we've assumed that end users need to be corralled in specific directions and even the terminology reflects this thinking – "rogue," "maverick," 'non-compliant.'"

Part of the issue is the risk-averse focus prevalent in most Oil and Gas companies, with a one-size-fits-all approach to all controls and the lack of clearly defined buying channels. Most end users are rational individuals who are fiscally prudent. But they expect an ecosystem that enables them to find suppliers, contracts and catalogs

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easily. They expect cleansed material and supplier masters with well-maintained descriptions and updated pricing. They expect easy integration with Bill of Materials (BoM) and Materials Requirement Planning (MRP) runs, and Amazon-like search, filtering and comparison capabilities. And they expect guidance on when to use purchase orders versus when not to do so, when to pay via P-card versus when to ask for an invoice, when to leverage two-way versus three-way matches, etc. When these process, data and system capabilities are enabled effectively through an effective procurement software solution, end users prefer to operate in compliance and enjoy the experience as well. This trend of simplifying the end-user experience to catch up with consumer apps while retaining the appropriate controls will continue to expand across the next few years and will help significantly enhance the end-user experience.

4. Moving to a truly agile culture

Most Oil & Gas technology projects have followed traditional waterfall project management approaches. These usually involve multi-year project timelines requiring huge teams, complex interlinked workstreams, heavy upfront focus on design followed by extensive testing before



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involving end users and the delivery of an application that would not see any major improvement until the next complex upgrade cycle. Some of this is naturally changed by moving to the cloud, but the core project management approach remains embedded in traditional models. In our experience, more successful companies have made fundamental changes to their organizational culture enabling them to embrace the agile nimble philosophy while deploying digital solutions. Most importantly, they have put the customer at the center of the process and have greater end-

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user engagement right from identifying business priorities, selecting the right platform, mapping current workflows and pain points, designing solution flows in conjunction with those users, collecting feedback and rapidly iterating with those users. This approach requires upfront alignment and investments in staffing projects

with the right end users, design leads and opening channels of ongoing collaboration throughout the project. It also requires the willingness to share unfinished and imperfect product versions with end users with the idea that constant iteration can improve the next version. And the understanding that there is no “finished product” since most cloud applications continue to release new enhancements on a regular basis. And most importantly, the ability to make faster decisions with most of the required informational inputs as opposed to slower decisions with all required inputs.

All these elements go against the grain of traditional project management and also conflict with risk-averse consensus-based cultures. Honest conversations at all levels and senior management sponsorship is critical to enable this cultural change and for end users to truly become part of the digital problem-solving journey.

This agile mindset is possibly the most difficult of organizational capabilities to develop. The harsh reality is that culture and operations typically change slowly within oil and gas companies. However, several leading companies have already shown the value of approaching digital initiatives the right way and driving true transformation. These groups now have a clearly articulated digital strategy, they’re more tightly connected with their business customers’ needs and they’ve radically simplified and optimized their end-to-end processes, leveraging a cloud-based ecosystem. They’ve set the standard for others to follow and have shifted their own focus to the next set of digital opportunities.

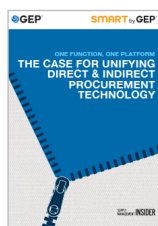
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The Future of Supply Chain Management

This new eBook from GEP and TechTarget explores trends and technologies that are revolutionizing the function, and the increasingly critical importance of a data-driven model. It explains what the future digital supply chain will look like and what steps you can take today to ensure your organization is on the right track.

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One Function, One Platform: The Case for Unifying Direct & Indirect Technology

This white paper explores the impact of new technologies on the two functions; what they can learn from each other; and the necessity of burying differences and sharing common processes and data, which can only happen through digital transformation and a unified source-to-pay technology platform.

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